

# Instructions for Form 3115

(Rev. April 1986)

## Application for Change in Accounting Method

### General Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

When filing Form 3115, taxpayers are reminded to determine if IRS has published a ruling or procedure dealing with the specific type of change since April 1986 (the current revision date of Form 3115).

You should normally receive an acknowledgement of your application within 30 days. If you do not hear from IRS within

**Note:** If this form is being filed in accordance with Rev. Proc. 74-11, see Section I below.

### Late Applications

If your application is filed after the 180 day period, it is "Late." The application will be considered for processing only upon a showing of "good cause" and if it can be shown to the satisfaction of the Commissioner that granting you an extension will not jeopardize the Government's interests. For further

perform any other act(s), the power of attorney must reflect such authorization(s).

### Affiliated Groups

Taxpayers that are members of an affiliated group filing a consolidated return that seek to change to the same accounting method for more than one member of the group, must file a separate Form 3115 for each such member.

(Item 1h, page 2)—If your change in overall method involves a change to the reserve method for bad debts, see Rev. Proc. 85-8 for the steps to take in computing the section 481(a) adjustment.

**Section D.**—(Item 2, page 3)—When the only change in your method of accounting is for bad debts from the specific charge-off method to the reserve method, you must follow the provisions of Rev. Proc. 85-8. Generally, if you comply with Rev. Proc. 85-8, you may assume the change has been approved.

**Section E-1.**—Applicants must give complete details about the old method of valuing inventory and the proposed method. State whether all or part of your inventory is involved in the change.

*Inventories of retail merchants.*—The retail method of pricing inventories does not contemplate valuation of goods at the retail selling price. The retail selling prices of goods on hand must be reduced to approximate cost or cost or market, whichever is lower, by the adjustments required in Regulation section 1.471-8.

*LIFO inventory changes.*—Attach a schedule with all the required computations when changing the method of figuring LIFO inventories. If you are changing from the LIFO to a non-LIFO method, attach a schedule with the following additional information:

- (1) The specific types and classes of goods in the LIFO inventories involved in the proposed changes and the comparative values of such inventories as of the end of the tax year preceding the year of change determined by (a) the LIFO method and (b) the proposed method and basis (such as FIFO cost or lower of cost or market).
- (2) State whether the proposed method and basis conforms to the inventory method currently used with respect to non-LIFO inventories, if any, or that such method is otherwise consistent with Regulation section 1.472-6. See also Rev. Proc. 85-54 for procedures for automatic discontinuance.

**Section E-2.**—Applicants requesting to change to the full absorption method of inventory costing OR requesting permission to change a method of inventory valuation MUST complete Section E-2 showing the treatment under both their present and proposed methods.

**Section F.**—When the only change in your method of accounting is for vested vacation pay plans from the cash method to the accrual method, you must comply with the provisions of Rev. Proc. 82-32. Generally, if you comply with Rev. Proc. 82-32, you may assume the change has been approved.

**Section G-1.**—Regulation section 1.451-3(b)(1) (i) provides that, except as provided in Regulation section 1.451-3(b)(1)(ii), the term “long-term contract” means a building, installation, construction, or manufacturing contract that is not completed within the tax year in which it is entered into.

**Section I.**—Rev. Proc. 74-11 provides a procedure whereby applicants are considered to have obtained the consent of the Commissioner to change their method of accounting for depreciation. You must file Form 3115 with the Service Center where your return will be filed within the first 180 days of the tax year in which it is desired to make the change. Attach a copy of the form to the income tax return for the tax year of the change.

**Section J.**—Generally, this section should be used for requesting changes in a method of accounting for which provision has not been made elsewhere on this form. Attach additional pages if more space is needed for a full explanation of the present method used and the proposed change requested.

If you are making an election under Code section 458 or 466, show the applicable information under Regulation section 1.458-10, or Regulation section 1.466-1.